

**ROY WATER CONSERVANCY SUBDISTRICT
BASIC FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED DECEMBER 31, 2006**

**ROY WATER CONSERVANCY SUBDISTRICT
YEAR ENDED DECEMBER 31, 2006**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion & Analysis	3-11
Basic Financial Statements:	
Balance Sheet.....	12
Statement of Revenues, Expenses, and Changes in Net Assets	13
Statement of Cash Flows	14
Notes to Basic Financial Statements	15-24
Independent Auditor's Report – State of Utah Legal Compliance.....	25
Report on Compliance and Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	26-27
Schedule of Findings.....	28
Impact Fee Reporting.....	29

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Roy Water Conservancy Subdistrict

We have audited the accompanying financial statements of the business-type activities of Roy Water Conservancy Subdistrict, as of and for the year ended December 31, 2006, which collectively comprise the Subdistrict's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Roy Water Conservancy Subdistrict's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Roy Water Conservancy Subdistrict, as of December 31, 2006, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2007, on our consideration of Roy Water Conservancy Subdistrict's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Roy Water Conservancy Subdistrict

The management's discussion and analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wood Richards & Associates

Ogden, Utah
May 15, 2007

ROY WATER CONSERVANCY SUBDISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2006

This section of the Roy Water Conservancy Subdistrict (the "Subdistrict") annual financial report presents our discussion and analysis of the financial performance of the Subdistrict during the calendar year 2006. This discussion has been prepared by Subdistrict management along with the financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by the financial statements and footnotes.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 34 ("GASB 34"), *Basic Financial Statements and Management's Discussion and Analysis*.

One of the most important questions asked is whether the Subdistrict as a whole is better or worse off as a result of the year's activities. The key to understanding this question is the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Balance Sheet includes all assets and liabilities. The Subdistrict's net assets (the difference between assets and liabilities) are one indicator of the Subdistrict's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the Subdistrict's financial health when considered with non-financial facts such as growth of the system and the condition of the facilities.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital and related financing, and investing activities.

ROY WATER CONSERVANCY SUBDISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2006

REPORTING ENTITY

The financial statements report information about the Subdistrict as a whole using accounting methods similar to those used by private-sector companies.

BALANCE SHEET INFORMATION

A summarized comparison of the Subdistrict's assets, liabilities and net assets at December 31, 2006, and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Cash and investments	\$ 2,340,679	\$ 1,745,135
Other assets	335,594	662,657
Capital assets	<u>11,590,600</u>	<u>11,788,866</u>
Total assets	<u>\$ 14,266,873</u>	<u>\$ 14,196,658</u>
Other liabilities	\$ 22,070	\$ 19,171
Long-term outstanding	<u>2,379,148</u>	<u>2,604,914</u>
Total liabilities	<u>2,401,218</u>	<u>2,624,085</u>
Net assets:		
Invested in capital assets, Net of related debt	9,225,600	9,268,073
Restricted	278,620	318,280
Unrestricted	<u>2,361,435</u>	<u>1,986,220</u>
Total net assets	<u>11,865,655</u>	<u>11,572,573</u>
Total liabilities and net assets	<u>\$14,266,873</u>	<u>\$ 14,196,658</u>

ROY WATER CONSERVANCY SUBDISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2006

CASH AND INVESTMENTS

The net cash provided by operating activities is \$417,747. Major uses of cash and investments include: Subdistrict acquisition and construction of capital assets of \$128,824, bond payments required of \$340,320. Overall, the Subdistrict's cash and investments increased by \$277,264. The total ending balance of cash and investments is \$2,340,679.

CAPITAL ASSETS

Net capital assets at the end of 2006 and 2005 were \$10,284,689 and \$10,482,955, respectively. The Subdistrict's capital assets consist of land easements, buildings, equipment, and the water delivery system.

The significant differences between 2006 and 2005 were contributions from developers, a waterline project at 5200 South, computer hardware upgrades, equipment purchases, reservoir improvements, and upgrades to the Geographic Information System (GIS) and Supervisory Control and Data Acquisition System (SCADA).

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ROY WATER CONSERVANCY SUBDISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2006

CAPITAL ASSETS (CONTINUED)

A summary of the changes in capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 249,723	\$ -	\$ -	\$ 249,723
Land easements	1,258	-	-	1,258
Total capital assets, not being depreciated	250,981	-	-	250,981
Capital assets, being depreciated				
Building	276,570	-	-	276,570
Equipment	698,014	94,039	(86,921)	705,132
Water delivery system	15,022,010	124,422	-	15,146,432
Total capital assets, being depreciated	15,996,594	218,461	(86,921)	16,128,134
Accumulated Depreciation for:				
Building	(39,104)	(5,531)	-	(44,635)
Equipment	(389,095)	(55,783)	33,562	(411,316)
Water delivery system	(5,336,421)	(302,054)	-	(5,638,475)
Total accumulated depreciation	(5,764,620)	(363,368)	33,562	(6,094,426)
Total capital assets, being depreciated, net	10,231,974	(144,907)	(53,359)	10,033,708
Business-type activities capital assets, net	<u>\$10,482,955</u>	<u>\$ (144,907)</u>	<u>\$ (53,359)</u>	<u>\$10,284,689</u>

DEBT OUTSTANDING

Long-term liabilities for 2006 and 2005 were \$2,379,148 and \$2,604,914, respectively. Long-term debt was reduced by \$220,000. The water revenue bonds will be paid in full by 2026.

Current liabilities totaled \$22,070 in 2006 and \$19,171 in 2005. The increase was due to a minor change in payroll taxes.

ROY WATER CONSERVANCY SUBDISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2006

DEBT OUTSTANDING (CONTINUED)

Below is a chart showing the beginning and ending balances of debt and the additions and deletions of those debts.

	Balance January 1, 2006	Additions	Reductions	Balance December 31, 2006	Amounts Due Within One Year
Revenue Bonds Payable	\$2,585,000	\$ -	\$ (220,000)	\$2,365,000	\$ 225,000
Accrued Annual Leave	19,914	16,750	(22,516)	14,148	15,000
	<u>\$2,604,914</u>	<u>\$ 16,750</u>	<u>\$ (242,516)</u>	<u>\$2,379,148</u>	<u>\$ 240,000</u>

NET ASSETS

The Subdistrict's total net assets as of December 31, 2006, were \$11,865,555 and 2005 were \$11,572,573, respectively.

Investments in capital assets net of related debt \$9,225,600 as of December 31, 2006. Restricted net assets totaled \$278,620, and unrestricted net assets totaled \$2,361,435.

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The statement of revenues, expenses and changes in net assets presents the Subdistrict's result of operations. A summarized comparison of the Subdistrict's revenues, expenses and changes in net assets for the years ended December 31, 2006 and 2005 are as follows:

ROY WATER CONSERVANCY SUBDISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2006

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2006	2005
OPERATING REVENUES:		
Property taxes:	\$ 162,575	\$ 155,556
Water assessments	1,457,358	1,258,455
Other operating income	55,013	52,516
Total operating income	1,674,946	1,466,527
OPERATING EXPENSES:		
Salaries and wages	323,255	337,272
Water assessments	375,296	275,256
Personnel costs	247,100	211,312
Repairs and maintenance	108,689	64,272
Depreciation and amortization	367,869	352,326
Supplies & other operating expenses	204,274	214,728
Total operating expenses	1,626,483	1,455,166
Operating income	48,463	11,361
NONOPERATING REVENUES (EXPENSES):		
Impact fees	200,026	172,051
Interest earned	100,635	63,614
Interest expense	(120,320)	(120,791)
Gain on sale	3,728	-
Total nonoperating revenues (expenses)	184,069	114,874
Income (Loss) before contributions	232,532	126,235
Contributions from developers	60,550	560,420
Change in net assets	293,082	686,655
TOTAL NET ASSETS, BEGINNING OF YEAR	11,572,573	10,885,918
TOTAL NET ASSETS, END OF YEAR	\$11,865,655	\$11,572,573

ROY WATER CONSERVANCY SUBDISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2006

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

There was a significant increase in revenue of approximately \$23,000 due to 240 new connections in 2006 versus 93 connections in 2005. The 2006 annual assessment revenues increased \$198,903.

The Davis & Weber Counties Canal Company water stock assessment increased again in 2006 by \$100,000 a year.

The Subdistrict had an operating income of \$48,463. The changes in operating expenses were due to the reduction in staff, resulting in the payment of accrued annual leave and early retirement settlement with an employee.

Continued operating expenses were due to additional changes to the reservoir facility, the Supervisory Control and Data Acquisition System (SCADA), and the Geographic Information System (GIS).

The total revenues for 2006 and 2005 were \$1,979,335 and \$1,702,192, respectively.

Water assessments provided 73% of the Subdistrict's revenue in 2006.

The total expenses for 2006 and 2005 were \$1,746,803, and \$1,575,957, respectively.

YEAR IN REVIEW

A strong housing market and a good inventory of lots in the newly annexed portion of the Subdistrict continue to provide a growing customer base offsetting the operations and maintenance burden for existing customers.

Davis and Weber Counties Canal Company assessment costs of the Subdistrict's 1493.5 shares have continued to increase yearly since 2000. Covering these costs has become a struggle for the Subdistrict. The past year was no exception as the Subdistrict was compelled to a \$100,000 increase. Over the next decade, significant assessment increases are predicted as Davis and Weber Counties Canal Company make necessary improvements to the canal to ensure a reliable supply of water for the Subdistrict. Estimated costs for the canal repairs will be an additional several million dollars, or more, and the Subdistrict's customers will pay approximately 15% of those costs. The Board of Trustees is committed to keeping operations financially sound and there will certainly be additional rate increases in the future to the Subdistrict's customers in order to cover the assessment increases from Davis and Weber Counties Canal Company.

ROY WATER CONSERVANCY SUBDISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2006

YEAR IN REVIEW (Continued)

During this past year, the Subdistrict made two significant employment changes of key staff members. A reduction in force required hiring one outside employee and shifting responsibilities in the field, as well as in the office, which has been a challenge. Despite the learning curve and the additional workload, staff members have done an outstanding job ensuring operations of the Subdistrict run smoothly. The reduction of office staff has provided substantial savings for the Subdistrict and the two remaining employees are handling the additional workload efficiently.

Major improvements to the system include equipment upgrades, computer hardware and software upgrades to the network server and workstations, remodeling of the shop interior, installation of a new 8" mainline on 5200 South from 1950 West to 2275 West, eliminating service interruptions on 5200 South and improving supply and reliability to the lower half of the distribution system.

Improvements to the Geographic Information System (GIS) have continued to properly map, record, and inventory the water distribution system. The upgrades to the Supervisory Control and Data Acquisition System (SCADA) were made to improve monitoring and recording of seasonal flows, pumping, and reservoir facility operations.

The future for the Subdistrict is very prominent with excellent direction and oversight from the Board of Trustees and diligent staff, the system is in excellent condition, is very sound financially, has an excellent water supply, well-defined boundaries, limited growth problems ahead, and reduced bond payments in the next couple of years.

SIGNIFICANT PROJECTS AND EVENTS FOR 2006

- Installation of an 8" Water Line on 5200 South from 1900 West to 2275 West, in Roy, Utah.
- Replacing and updating the Network Operating System (server) and other workstations hardware and software.
- Restructuring of key tenure staff, creating a challenging learning curve for staff members during the transition.
- The Board's decision to sell surplus property in continuation to the Board's decision not to build the West Reservoir.

ROY WATER CONSERVANCY SUBDISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2006

SIGNIFICANT PROJECTS AND EVENTS FOR 2006 (Continued)

- Utilization of the Geographic Information System (GIS) and program mapping of all services and mainline parts by the staff.
- In conjunction to the Geographic Information System (GIS), the staff has begun to develop programs to utilize the software and maps more efficiently to serve the customers and keep better service records.
- Significant upgrade to the shop office and shop interior.
- Completion of the reservoir embankment stabilization, grading, and landscaping as required by the State Engineer for the Reservoir Expansion project.
- The Board's decision to sell the road grader and purchase a mini excavator to replace the road grader.

FINANCIAL CONTACT

The Subdistrict's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the Subdistrict's finances and to demonstrate the Subdistrict's accountability. If you have questions about the report or need additional financial information, please contact the Subdistrict's Manager at 5440 South Freeway Park Drive, Riverdale, Utah 84405.

**ROY WATER CONSERVANCY SUBDISTRICT
BALANCE SHEET
AS OF DECEMBER 31, 2006**

	<u>2006</u>	<u>2005 Comparative Only</u>
ASSETS:		
Current assets:		
Cash	\$ 130,631	\$ 52,828
Cash - savings	1,931,428	1,692,307
Inventory, at cost	27,711	25,846
Tax assessments receivable	211,853	217,036
Accounts receivable - connection fees	6,019	6,984
Total current assets	<u>2,307,642</u>	<u>1,995,001</u>
Restricted assets:		
Cash and cash equivalents	278,620	318,280
Noncurrent assets:		
Water shares	1,305,911	1,305,911
Capital assets:		
Land	249,723	249,723
Land easements	1,258	1,258
Net depreciable capital assets	<u>10,033,708</u>	<u>10,231,974</u>
Total noncurrent assets	<u>11,590,600</u>	<u>11,788,866</u>
Other assets:		
Unamortized bond issue costs	<u>90,011</u>	<u>94,511</u>
Total assets	<u><u>\$ 14,266,873</u></u>	<u><u>\$ 14,196,658</u></u>
LIABILITIES:		
Current liabilities:		
Payroll taxes payable	\$ 9,646	\$ 6,475
Accounts payable	<u>12,424</u>	<u>12,696</u>
Total current liabilities	<u>22,070</u>	<u>19,171</u>
Noncurrent liabilities:		
Due within one year	240,000	233,000
Due in more than one year	<u>2,139,148</u>	<u>2,371,914</u>
Total noncurrent liabilities:	<u>2,379,148</u>	<u>2,604,914</u>
Total liabilities	<u>2,401,218</u>	<u>2,624,085</u>
NET ASSETS:		
Invested in capital assets, net of related debt	9,225,600	9,268,073
Restricted:		
Debt service	259,843	254,073
Capital improvements	18,777	64,207
Unrestricted	<u>2,361,435</u>	<u>1,986,220</u>
Total net assets	<u>11,865,655</u>	<u>11,572,573</u>
Total liabilities and net assets	<u><u>\$ 14,266,873</u></u>	<u><u>\$ 14,196,658</u></u>

The notes to the financial statements are an integral part of this statement.

ROY WATER CONSERVANCY SUBDISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
AS OF DECEMBER 31, 2006

	<u>2006</u>	<u>2005 Comparative Only</u>
OPERATING REVENUES:		
Property taxes:		
Current	\$ 100,805	\$ 97,974
Delinquent	42,452	38,243
Motor vehicle	19,318	19,339
Water assessments	1,457,358	1,258,455
Lease income	43,479	42,732
Miscellaneous	11,534	9,784
	<hr/>	<hr/>
Total operating income	1,674,946	1,466,527
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OPERATING EXPENSES:		
Salaries and wages	323,255	337,272
Water assessments	375,296	275,256
Reimbursements	1,517	6,739
Professional fees	50,620	70,914
Board of Directors	20,395	19,500
Conventions and workshops	38,860	48,585
Employee benefits and payroll taxes	187,845	143,227
Repairs and maintenance	108,689	64,272
Auto and truck	17,111	21,305
Supplies, printing and advertising	34,685	32,312
Depreciation	363,368	347,825
Amortization	4,501	4,501
Insurance	33,830	28,898
Telephone and utilities	54,724	52,308
Miscellaneous	11,787	2,252
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Total operating expenses	1,626,483	1,455,166
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Operating income	48,463	11,361
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NONOPERATING REVENUES (EXPENSES):		
Impact fees	200,026	172,051
Interest earned	100,635	63,614
Interest expense	(120,320)	(120,791)
Gain on sale	3,728	-
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Total nonoperating revenues (expenses)	184,069	114,874
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Income (Loss) before contributions	232,532	126,235
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Contributions from developers	60,550	560,420
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Change in net assets	293,082	686,655
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TOTAL NET ASSETS, BEGINNING OF YEAR	11,572,573	10,885,918
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TOTAL NET ASSETS, END OF YEAR	<u>\$ 11,865,655</u>	<u>\$ 11,572,573</u>

The notes to the financial statements are an integral part of this statement.

**ROY WATER CONSERVANCY SUBDISTRICT
STATEMENT OF CASH FLOWS
AS OF DECEMBER 31, 2006**

	2006	2005 Comparative Only
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,681,094	\$ 1,452,795
Cash payments to suppliers	(729,257)	(692,422)
Cash payments to employees	(534,090)	(499,851)
Net cash provided by operating activities	<u>417,747</u>	<u>260,522</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash received from impact fees	200,026	172,051
Acquisition and construction of capital assets	(128,824)	(243,224)
Proceeds from sale of capital assets	28,000	-
Principal payments on revenue bonds payable	(220,000)	(210,000)
Interest payments on revenue bonds payable	(120,320)	(120,791)
Net cash used by capital and related financing activities	<u>(241,118)</u>	<u>(401,964)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	<u>100,635</u>	<u>63,614</u>
Net cash provided by investing activities	<u>100,635</u>	<u>63,614</u>
Net Increase (Decrease) in cash and cash equivalents	277,264	(77,828)
Cash and cash equivalents - beginning of year	<u>2,063,415</u>	<u>2,141,243</u>
Cash and cash equivalents - end of year	<u><u>\$ 2,340,679</u></u>	<u><u>\$ 2,063,415</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 48,463	\$ 11,361
Reconciling adjustments:		
Depreciation	363,368	347,825
Amortization	4,501	4,501
(Increase) Decrease in tax assessment receivable	5,183	(12,761)
(Increase) Decrease in accounts receivable	965	(971)
(Increase) Decrease in inventory	(1,866)	-
Increase (Decrease) in payroll taxes payable	3,171	(710)
Increase (Decrease) in accounts payable	(272)	(89,581)
Increase (Decrease) in accrued annual leave	(5,766)	858
Total adjustments	<u>369,284</u>	<u>249,161</u>
Net cash provided by operating activities	<u><u>\$ 417,747</u></u>	<u><u>\$ 260,522</u></u>
Noncash capital and related financing activities:		
Capital contributions	\$ 60,550	\$ 560,420

The notes to the financial statements are an integral part of this statement.

**ROY WATER CONSERVANCY SUBDISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Roy Water Conservancy Subdistrict began operations in 1974. The Subdistrict provides secondary water to residents in the Roy, Utah area. In defining the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards board (GASB). Based upon the application of the criteria established by GASB Statement No. 14, the Subdistrict has no component units.

The Subdistrict's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable that do not conflict with or contradict GASB pronouncements). Although the Subdistrict has the option to apply FASB pronouncements issued after that date to its enterprise fund, the Subdistrict has chosen not to do so. The more significant accounting policies established in GAAP and used by the Subdistrict are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments.

The Subdistrict has the following fund type:

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Subdistrict applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Enterprise Funds are required to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

**ROY WATER CONSERVANCY SUBDISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

The accounts of Roy Water Conservancy Subdistrict are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual:

The government's financial statements are presented on the full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Assets, Liabilities and Equity

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, repurchase agreements and the State Treasurer's Investment Pool.

Investments are stated at cost which approximates fair value.

Receivables and Payables

Property taxes are recognized when they are measurable and available. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on June 15 and are due on November 30. Property tax receivables at year end were \$211,853.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of two years. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair market value at the date of donation.

**ROY WATER CONSERVANCY SUBDISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Water System	50
Vehicles	5
Equipment	7

Unamortized Bond Issue Costs

The Subdistrict incurred \$113,156 in bond issue costs with the 2002 revenue bonds. The Subdistrict amortizes those costs over the life of the bond using the straight-line method.

Accrued Annual Leave

The Subdistrict accrues accumulated unpaid vacation when earned (or estimated to be earned) by the employee.

Long-term Liabilities

The Subdistrict reports long-term liabilities at face value on the balance sheet. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

Equity

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**ROY WATER CONSERVANCY SUBDISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (continued)

- b. **Restricted net assets** – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. **Unrestricted net assets** – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

It is the Subdistrict's policy to first apply restricted resources before applying unrestricted resources when an expense is incurred for purposes by which both restricted and unrestricted net assets are available. The Subdistrict only uses the restricted net assets for their specified purposes of debt service and capital improvements.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Subdistrict. Operating revenues consist of charges for services including property taxes assessed for those services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities.

Budget Information

Annual budgets are prepared and adopted in accordance with the "Uniform Fiscal Procedures Act" by the Roy Water Conservancy Subdistrict on or before December 15th for the following fiscal year, which begins on January 1. Budgets may be increased by resolution of the Board of Directors at any time during the year, following a public hearing.

The Subdistrict adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- 1. On or before the first regular scheduled meeting in November, the Director submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- 2. Prior to the formal adoption of the budget the Board of Directors will hold budget workshop meetings, which are open to the public.

**ROY WATER CONSERVANCY SUBDISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget Information (continued)

3. Prior to budget adoption the Board of Directors sets a date for a public budget hearing at which time taxpayers' comments are heard. Copies of the proposed budget are made available for public inspection 10 days prior to the budget hearing. At the conclusion of the budget hearing the budget, as amended, is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the Government Funds.
5. Budgets for the District are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Board of Directors during the 2006 fiscal year.
6. Unencumbered budget appropriations lapse at the end of the fiscal year.

2. DEPOSITS AND INVESTMENTS

The Subdistrict's cash includes petty cash and amounts in demand deposits. This cash is displayed in the account titled "Cash." Investments are stated at cost or amortized cost, which approximates fair value. Deposits are not collateralized nor are they required to be by State statute. The Subdistrict's investments are displayed on the balance sheet as "Cash - savings" and "Cash and cash equivalents" under the restricted asset caption.

The Subdistrict follows the requirements of the Utah Money Management Act (*Utah Code, Section 51, Chapter 7*) in handling its depository and investment transactions. This Act requires the depositing of Subdistrict funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial credit risk - Custodial credit risk is the risk that, in the event of a bank failure, the Subdistrict's deposits may not be returned to it. The Subdistrict does not have a formal deposit policy for custodial credit risk. As of December 31, 2006, all of the Subdistrict's bank deposits equal to \$133,066 were insured, but uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the Subdistrict and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

**ROY WATER CONSERVANCY SUBDISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Statutes authorize the Subdistrict to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes and other evidence of indebtedness of political subdivision of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The investments in the trust accounts and the certificates of deposits are insured under the Federal Depository Insurance Coverage, however, this amount is limited to \$100,000 per issuer. Of the \$585,611 invested in these funds, \$400,000 is insured; the remaining balance of \$185,611 is uninsured and uncollateralized.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF Investment pool is approximately equal to the value of the pool shares.

As of December 31, 2006, the Subdistrict had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)				Quality Ratings
		Less than 1	1-5	6-10	More than 10	
PTIF Investments	1,624,360	1,624,360	-	-	-	not rated
Trust Accounts	278,620	278,620	-	-	-	not rated
Certificate of deposit	307,068	100,000	207,068	-	-	not rated
	<u>2,210,048</u>	<u>2,002,980</u>	<u>207,068</u>	<u>-</u>	<u>-</u>	

**ROY WATER CONSERVANCY SUBDISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Subdistrict manages its exposure to declines in fair value by investing mainly in the Utah Public Treasurers Investment Fund and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Maturities of the Subdistrict's investments are noted in the previous table.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Subdistrict's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Subdistrict's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar held in the portfolio. The Subdistrict's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk (investments) – For an investment, this is the risk that, in the event of the failure of the counterparty, the Subdistrict will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Subdistrict does not have a formal policy for custodial credit risk. The Subdistrict's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at December 31, 2006, are as follows:

Reconciliation of deposits and investments:	
Deposits	\$ 130,481
Cash on hand	150
Investments	<u>2,210,048</u>
Cash and cash equivalents	<u>2,340,679</u>
Tie to statements:	
Cash	130,631
Cash - savings	1,931,428
Restricted cash and cash equivalents	<u>278,620</u>
	<u>\$ 2,340,679</u>

**ROY WATER CONSERVANCY SUBDISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

3. WATER SHARES

There were 1,493.5 shares of water rights in the Davis and Weber Counties Canal Company acquired at a cost of \$1,305,911 as of December 31, 2006. The market value of these shares based on the most recent arms-length purchase is \$30,000,000 as of December 31, 2006.

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 249,723	\$ -	\$ -	\$ 249,723
Land easements	1,258	-	-	1,258
Total capital assets, not being depreciated	250,981	-	-	250,981
Capital assets, being depreciated				
Building	276,570	-	-	276,570
Equipment	698,014	94,039	(86,921)	705,132
Water delivery system	15,022,010	124,422	-	15,146,432
Total capital assets, being depreciated	15,996,594	218,461	(86,921)	16,128,134
Accumulated Depreciation for:				
Building	(39,104)	(5,531)	-	(44,635)
Equipment	(389,095)	(55,783)	33,562	(411,316)
Water delivery system	(5,336,421)	(302,054)	-	(5,638,475)
Total accumulated depreciation	(5,764,620)	(363,368)	33,562	(6,094,426)
Total capital assets, being depreciated, net	10,231,974	(144,907)	(53,359)	10,033,708
Business-type activities capital assets, net	<u>\$10,482,955</u>	<u>\$(144,907)</u>	<u>\$ (53,359)</u>	<u>\$10,284,689</u>

5. RISK MANAGEMENT - CLAIMS AND JUDGEMENTS

The Subdistrict is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters.

The Subdistrict maintains commercial insurance for all major programs. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or in prior years.

**ROY WATER CONSERVANCY SUBDISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

6. LONG-TERM LIABILITIES

During 2002 the Subdistrict issued revenue bonds to refinance all existing debt and to finance a reservoir expansion. The bonds yield a 4.50% interest rate. Maturities of long-term debt for the next five years and subsequent five year increments are as follows:

<u>For the Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 225,000	\$ 112,620	\$ 337,620
2008	230,000	104,183	334,183
2009	75,000	94,983	169,983
2010	75,000	91,795	166,795
2011	75,000	88,608	163,608
2012-2016	430,000	388,465	818,465
2017-2021	550,000	271,500	821,500
2022-2026	705,000	113,880	818,880
	<u>\$2,365,000</u>	<u>\$1,266,034</u>	<u>\$3,631,034</u>

Activity with long-term liabilities including accrued annual leave for the year ended December 31, 2006 was as follows:

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2006</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds Payable	\$2,585,000	\$ -	\$ (220,000)	\$2,365,000	\$ 225,000
Accrued Annual Leave	19,914	16,750	(22,516)	14,148	15,000
	<u>\$2,604,914</u>	<u>\$ 16,750</u>	<u>\$ (242,516)</u>	<u>\$2,379,148</u>	<u>\$ 240,000</u>

7. RESTRICTED NET ASSETS

Debt service - The 2002 revenue bonds contain a provision that the subsequent years' interest and principal payments be restricted to ensure the debt will be adequately serviced.

Capital improvements - The bond proceeds from the 2002 revenue bonds are restricted solely for capital improvements.

**ROY WATER CONSERVANCY SUBDISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

8. RETIREMENT SYSTEM

Plan description

The Roy Water Conservancy Subdistrict contributes to the Local Governmental Noncontributory Retirement System which is for employers with social security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems. Utah Retirement Systems provide funds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement board (Board) whose members are appointed by the Governor.

The Systems issue a publicly available financial report that includes financial statements and required supplementary information of the Local Governmental Non-contributory Retirement System. The Utah State Retirement Systems is on a calendar year which ends December 31, 2006. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake Subdistrict, UT 84102 or by calling 1-800-365-8772.

Funding policy

The Subdistrict is required to contribute 11.09% of their covered salary from January 2006 through June 2006 and 11.59% of their covered salary from July 2006 through December 2006. The contribution rates are the actuarially determined rates. The contribution requirements of the system are authorized by statute and specified by the Board.

The contributions by the Subdistrict to the Local Governmental Noncontributory Retirement System for the years ended December 31, 2006, 2005, and 2004 were \$27,430, \$27,991, and \$24,641 respectively. The contributions were equal to the required contributions for each year and were paid by the due dates or within 30 days thereafter.

The Utah State Retirement Board does not segregate the assets and vested benefits of the individual plans by unit within the system. Therefore, it is not possible to determine the portion of the assets and vested benefits or unfunded liabilities of the plans that are applicable to Subdistrict employees.

The Subdistrict also provides a 401-k plan for employees. All employees are given the opportunity, through payroll deductions, of additional participation in the 401-k plan. The contributions by the Subdistrict to the 401-k plan for the years ended December 31, 2006, 2005, and 2004 were \$25,787, \$26,896, and \$23,690 respectively. Contributions by employees were \$7,333, \$12,609, and \$13,705 respectively.

INDEPENDENT AUDITOR'S REPORT
STATE OF UTAH LEGAL COMPLIANCE

To the Board of Directors
Roy Water Conservancy Subdistrict

We have audited the accompanying financial statements of the business-type activities of Roy Water Conservancy Subdistrict, for the year ended December 31, 2006 and have issued our report thereon dated May 15, 2007. Our audit included testwork on the Subdistrict's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt	Truth in Taxation & Property Tax Limitations
Cash Management	Purchasing Requirements
Budgetary Compliance	Other General Compliance Issues
Impact Fees	General Compliance Special Districts

The Subdistrict did not receive any major or non-major State grants during the year ended December 31, 2006.

The management of Roy Water Conservancy Subdistrict is responsible for the Subdistrict's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Subdistrict's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with requirements referred to above.

In our opinion, Roy Water Conservancy Subdistrict, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

Wood Richards & Associates

May 15, 2007

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Roy Water Conservancy Subdistrict

We have audited the financial statements of Roy Water Conservancy Subdistrict of and for the year ended December 31, 2006, and have issued our report thereon dated May 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Roy Water Conservancy Subdistrict's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Roy Water Conservancy Subdistrict's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Roy Water Conservancy Subdistrict's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

May 15, 2007

Page 2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Roy Water Conservancy Subdistrict's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Wood Richards & Associates

Ogden, UT
May 15, 2007

**ROY WATER CONSERVANCY SUBDISTRICT
SCHEDULE OF FINDINGS
DECEMBER 31, 2006**

Finding #1:

Through an evaluation of the internal controls over financial reporting it was determined that a control deficiency exists within the control policies and procedures of Roy Water Conservancy Subdistrict. This control deficiency is deemed to be a significant deficiency. The deficiency is caused by a lack of separation of duties and/or lack of monitoring in the purchasing and accounts payable as the same individual who prepares the checks and inputs the invoices also prepares the bank reconciliation. The bank statements and cancelled checks are not reviewed.

Recommendation:

We recommend the Subdistrict assign another individual to open the bank statement and review the statement along with the cancelled checks and sign off on the statement every month. Ideally, this person would be someone who signs checks, but is not involved in the accounting functions, such as check input and processing. This person would be more apt to identify any unusual disbursements.

Response:

Management agrees with the deficiency and will have an individual begin to review the bank statement and cancelled checks and sign off on the bank statement before they are delivered to the individual who prepares the bank reconciliation.

**ROY WATER CONSERVANCY SUBDISTRICT
IMPACT FEE REPORTING
JUNE 30, 2006**

Impact fees are a funding tool used by local governments to place the cost of specific entity improvements to those that are creating the need for the improvements. Roy Water Conservancy Subdistrict has established an impact fee that is charged to either the developer or individual property owner.

The Subdistrict has overspent impact fee revenue in past years, therefore a zero balance appears on the balance sheet.

Future expenditures are planned with the master plan for additional expansion of the water system.